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Key rating assessment factors

ACRA upgrades the Komi Republic to BBB+(RU), outlook Stable, and its bonds to BBB+(RU)

The credit rating of the [Komi Republic](#) (the Republic) has been upgraded on the lower debt load, which is a result of partial repayment of the republican debt out of unbudgeted tax revenues. The rating is capped by the medium level of economic development, inelastic profile of budget expenditures, and volatility of internal revenues.

The Republic is located in the North-Western Federal District. A part of its territory belongs to the Far North area. About 0.6% of the Russian population live in the Region. In 2018, the Republic's GRP amounted to RUB 562 bln.

Budget surplus has been applied to push the debt load down. In 2018, the Republic's budget showed a surplus of 13.6% of tax and non-tax revenues, or RUB 10.2 bln, which is a result of higher income tax and property tax revenues. The operating balance of the Republic has also grown by 28% against 2017. The surplus has been applied to repay the debt, which decreased by 26%, or RUB 10.1 bln, including bank loans that have been prepaid in full. The debt to operating balance ratio has declined from 2.3 to 1.3 in 2018.

Budget volatility is caused by the dependence on the largest taxpayers operating in the extractive sector. The extraction of minerals (oil, gas, coal), which accounted for 38% of the GRP in 2017, is the main driver of the industrial production and the GRP of the Republic. Together with the sub-sector "Production of petroleum products", the extractive sector generates two-thirds of the industrial output of the Republic. Weak sectoral diversification of the economy is reflected in the volatility of tax base and the low diversification of tax revenues. ACRA is of the opinion that, in case the ruble prices for raw materials extracted in the Republic go down as forecasted, coupled with the expected decline in the property tax revenues, in 2019, the operating balance of the Republic may go back to the level of 2017. The Republic may increase the debt by 9–11%, thereby pulling the debt load up (the debt to operating balance ratio may go up to 2.0). Nevertheless, considering that the Republic has managed to decrease the debt load significantly in 2017 and 2018, the above growth in the debt load will not affect the assessment.

As of February 01, 2019, the republican debt portfolio included bonds (73%) and budget loans (27%), and the debt repayment schedule showed no refinancing risk. The share of guarantees is insignificant (less than 0.5%). ACRA notes that the Republic still faces the risk that some state sector enterprises will require budget support to cover their financial indebtedness.

Key assumptions

- The share of mandatory expenditures will be kept under control amid waning tax base;
- The tax revenues planning approaches will remain conservative;
- The debt policy will remain conservative.

Potential outlook or rating change factors

The **Stable outlook** assumes that the rating will most likely stay unchanged within the 12 to 18-month horizon.

A positive rating action may be prompted by:

- A lower share of mandatory budget expenses;
- Budget surplus in 2019, and further decline in the absolute debt;
- A sustainable growth of the internal budget liquidity.

A negative rating action may be prompted by:

- The absolute debt growing by over than 15% against 2018, and the debt to operating balance ratio exceeding 2.3 in 2019;
- A growing share of mandatory expenditures and a declining operating balance down to 10–12% of regular revenues.

Issue ratings

[Komi Republic, 35011 \(ISIN RU000A0JUN81\)](#), maturity: November 27, 2019, issue volume: RUB 10.1 bln — BBB+(RU);

[Komi Republic, 35012 \(ISIN RU000A0JVKF9\)](#), maturity: June 23, 2021, issue volume: RUB 11 bln — BBB+(RU);

[Komi Republic, 35013 \(ISIN RU000A0JWZM1\)](#), maturity: November 16, 2022, issue volume: RUB 6.18 bln — BBB+(RU);

[Komi Republic, 35014 \(ISIN RU000A0JXUD9\)](#), maturity: June 25, 2024, issue volume: RUB 10 bln — BBB+(RU).

Credit rating rationale. ACRA is of the opinion that the above bonds issued by the Komi Republic are senior unsecured debt instruments, which credit ratings are equal to that of the [Komi Republic](#).

Regulatory disclosure

The credit ratings were assigned to the Komi Republic and bonds (ISIN RU000A0JUN81, ISIN RU000A0JVKF9, ISIN RU000A0JWZM1, ISIN RU000A0JXUD9) issued by the Komi Republic under the national scale for the Russian Federation based on the [Methodology for Credit Ratings Assignment to Regional and Municipal Authorities of the Russian Federation](#), and the [Key Concepts Used by Analytical Credit Rating Agency within the Scope of Its Rating Activities](#). In the course of assigning credit ratings to the bond issues above, the Methodology for Assigning Credit Ratings to Individual Issues of Financial Instruments under the National Scale of the Russian Federation was also used.

The credit rating assigned to the Komi Republic and the credit ratings assigned to the government bonds (ISIN RU000A0JUN81, ISIN RU000A0JVKF9, ISIN RU000A0JWZM1, ISIN RU000A0JXUD9) issued by the Komi Republic were first published by ACRA on September 5, 2017 and March 5, 2018, respectively.

The credit rating of the Komi Republic and its outlook, as well as the credit ratings assigned to the government bonds (ISIN RU000A0JUN81, ISIN RU000A0JVKF9, ISIN RU000A0JWZM1, ISIN RU000A0JXUD9) issued by the Komi Republic are expected to be revised within 182 days following the publication date of this press release as per the [Calendar of planned sovereign credit rating revisions and publications](#).

The credit ratings were assigned based on the data provided by the Komi Republic, information from publicly available sources (the Ministry of Finance, the Federal State Statistics Service, and the Federal Tax Service), as well as ACRA's own databases. The credit ratings are solicited, and the Government of the Komi Republic participated in their assignment.

No material discrepancies between the provided data and the data officially disclosed by the Komi Republic in its financial reports have been discovered.

ACRA provided no additional services to the Government of the Komi Republic. No conflicts of interest were discovered in the course of credit rating process.

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